

**REPORT OF THE AUDIT OF THE
SPENCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SPENCER COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Spencer County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions on the governmental activities and each major fund of Spencer County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$5,154,939 as of June 30, 2011. The fiscal court had unrestricted net assets of \$1,085,712 in its governmental activities as of June 30, 2011, with total net assets of \$5,154,939.

Deposits:

The fiscal court was insured and collateralized by bank securities and bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Bill Karrer, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Spencer County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Spencer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Spencer County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Spencer County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2012 on our consideration of Spencer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

January 9, 2012

SPENCER COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Bill Karrer	County Judge/Executive
Mike Moody	Magistrate
Hobert Judd	Magistrate
Jerry Davis	Magistrate
Ronald Cheek	Magistrate
David Goodlett	Magistrate

Other Elected Officials:

Ruth Hollan	County Attorney
Darrell Herndon	Jailer
Judy Puckett	County Clerk
Becky M. Robinson	Circuit Court Clerk
Donald Stump, Jr.	Sheriff
Kim Stump	Property Valuation Administrator
Danny Hilbert	Coroner

Appointed Personnel:

Doug Williams	County Treasurer
Karen Curtsinger	Finance Officer/Deputy Judge

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SPENCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

SPENCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,085,712
Total Current Assets	<u>1,085,712</u>
Noncurrent Assets:	
Land	312,600
Capital Assets - Net of Accumulated Depreciation	
Land Improvements	86,865
Buildings and Building Improvements	1,500,726
Equipment	640,689
Vehicles	294,223
Infrastructure	<u>1,234,124</u>
Total Noncurrent Assets	<u>4,069,227</u>
Total Assets	<u>5,154,939</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,069,227
Unrestricted	<u>1,085,712</u>
Total Net Assets	<u><u>\$ 5,154,939</u></u>

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,905,144	\$ 278,044	\$ 651,449	\$ 450,132
Protection to Persons and Property	1,168,100	506,280	95,984	
General Health and Sanitation	126,171	65,555	26,607	
Social Services	51,959			
Recreation and Culture	127,677			
Roads	899,765	13,125	828,071	307,854
Debt Service	18,803			
Capital Projects	258,732			
Total Governmental Activities	<u>\$ 4,556,351</u>	<u>\$ 863,004</u>	<u>\$ 1,602,111</u>	<u>\$ 757,986</u>

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

In Lieu of Taxes

Gain on Sale of Assets

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SPENCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses)
Revenues and
Changes in Net Assets

Governmental
Activities

\$ (525,519)
(565,836)
(34,009)
(51,959)
(127,677)
249,285
(18,803)
(258,732)
(1,333,250)

795,861
67,996
145,941
1,277,550
11,553
30,091
100
163,312
8,986
2,501,390
1,168,140
3,986,799
\$ 5,154,939

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

SPENCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 713,363	\$ 372,349	\$ 1,085,712
Total Assets	<u>713,363</u>	<u>372,349</u>	<u>1,085,712</u>
FUND BALANCES			
Assigned To:			
Protection to Persons and Property	45,109		45,109
Roads		372,349	372,349
Unassigned	<u>668,254</u>		<u>668,254</u>
Total Fund Balances	<u>\$ 713,363</u>	<u>\$ 372,349</u>	<u>\$ 1,085,712</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,085,712
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	7,037,543
Accumulated Depreciation	<u>(2,968,316)</u>
Net Assets Of Governmental Activities	<u>\$ 5,154,939</u>

The accompanying notes are an integral part of the financial statements.

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SPENCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

SPENCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 2,269,249	\$	\$ 2,269,249
In Lieu Tax Payments	30,091		30,091
Excess Fees	11,554		11,554
Licenses and Permits	274,444		274,444
Intergovernmental	1,246,942	1,135,926	2,382,868
Charges for Services	515,097		515,097
Miscellaneous	196,354	36,349	232,703
Interest	7,206	1,779	8,985
Total Revenues	<u>4,550,937</u>	<u>1,174,054</u>	<u>5,724,991</u>
EXPENDITURES			
General Government	1,340,982		1,340,982
Protection to Persons and Property	1,196,806		1,196,806
General Health and Sanitation	132,960		132,960
Social Services	48,695		48,695
Recreation and Culture	107,248		107,248
Roads		940,252	940,252
Debt Service	640,598	116,685	757,283
Capital Projects	258,732		258,732
Administration	536,933	162,906	699,839
Total Expenditures	<u>4,262,954</u>	<u>1,219,843</u>	<u>5,482,797</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>287,983</u>	<u>(45,789)</u>	<u>242,194</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		229,500	229,500
Transfers To Other Funds	(229,500)		(229,500)
Total Other Financing Sources (Uses)	<u>(229,500)</u>	<u>229,500</u>	
Net Change in Fund Balances	58,483	183,711	242,194
Fund Balances - Beginning (Restated)	654,880	188,638	843,518
Fund Balances - Ending	<u>\$ 713,363</u>	<u>\$ 372,349</u>	<u>\$ 1,085,712</u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

SPENCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 242,194
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	646,957
Depreciation Expense	(458,991)
Assets disposed of, net book value	(500)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments	738,480
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Change in Net Assets of Governmental Activities	\$ 1,168,140
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Spencer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Spencer County Public Improvement Corporation.

The Public Improvement Corporation had no financial activity in FY 2011.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Spencer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Spencer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Spencer County does not have any business-type activities to report in its financial statements. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Revenue Fund:

The Road Fund is presented as special revenue fund. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-50
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has used the spending policy to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Spencer County Fiscal Court: the Spencer County Tourism Commission and the Spencer County Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Spencer County Fiscal Court and the City of Taylorsville: Taylorsville-Spencer County Community Industrial Development Authority.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows operating transfer for FY 2011.

		Total
	Road Fund	Transfers In
General Fund	\$ 229,500	\$ 229,500
Total Transfers Out	\$ 229,500	\$ 229,500

Reason for transfers:

To move resources from the general fund to the road fund, for budgetary purposes, to the fund that will expend them.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 312,600	\$	\$	\$ 312,600
Total Capital Assets Not Being Depreciated	312,600			312,600
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	2,010,660			2,010,660
Equipment	1,095,928	106,528		1,202,456
Vehicles	1,088,641	79,579	(6,100)	1,162,120
Land Improvements	130,312			130,312
Infrastructure	1,758,545	460,850		2,219,395
Total Capital Assets Being Depreciated	6,084,086	646,957	(6,100)	6,724,943
Less Accumulated Depreciation For:				
Buildings and Building Improvements	(477,229)	(32,705)		(509,934)
Equipment	(450,275)	(111,492)		(561,767)
Vehicles	(786,998)	(86,499)	5,600	(867,897)
Land Improvements	(37,092)	(6,355)		(43,447)
Infrastructure	(763,331)	(221,940)		(985,271)
Total Accumulated Depreciation	(2,514,925)	(458,991)	5,600	(2,968,316)
Total Capital Assets, Being Depreciated, Net	3,569,161	187,966	(500)	3,756,627
Governmental Activities Capital Assets, Net	\$ 3,881,761	\$ 187,966	\$ (500)	\$ 4,069,227

Governmental Activities:

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 38,829
Protection to Persons and Property	100,301
General Health and Sanitation	2,711
Social Services	3,264
Recreation and Culture	20,429
Roads, Including Depreciation of General Infrastructure Assets	293,457
Total Depreciation Expense - Governmental Activities	<u>\$ 458,991</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt

A. Financing Obligation – Courthouse Renovation

On September 21, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$900,625. The purpose of the financing was for the renovation of the courthouse. The term for this agreement was 10 years with the balance to be paid in full January 20, 2011. The Administrative Office of the Courts (AOC) pays \$29,850 directly to the trustee for KACoLT, National City Bank each February and August. The financing obligation was paid off in full in December 2010.

B. Financing Obligation – Building Renovation

On July 7, 2005, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$250,000. The purpose of the financing was for the renovation of a building for use as an office for the planning and zoning department and for use as the fiscal court meeting room. The term for this agreement was 15 years with the balance to be paid in full July 20, 2020. The financing obligation was paid off early in December 2010.

C. Financing Obligation – Road Equipment

On April 26, 2007, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$144,000. The purpose of the financing was for the purpose of a patcher, 6,000-gallon tank, and a truck. The term for this agreement was 11 years with the balance to be paid in full July 20, 2017. The financing obligation was paid off early in December 2010.

D. Financing Obligation – Road Maintenance

On September 17, 2007, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$500,000. The purpose of the financing was for road maintenance. The term for this agreement was 5 years with the balance to be paid in full July 20, 2012. The financing obligation was paid off early in December 2010.

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 738,480	\$	\$ 738,480	\$	\$
Governmental Activities					
Long-term Liabilities	<u>\$ 738,480</u>	<u>\$ 0</u>	<u>\$ 738,480</u>	<u>\$ 0</u>	<u>\$ 0</u>

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$16,016 in interest on financing obligations.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2009 was \$365,460, FY 2010 was \$418,624, and FY 2011 was \$413,617.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Employee Retirement System (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On March 15, 2010, the Spencer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2011, Spencer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Change In Accounting Principles and Prior Period Adjustments

Due the implantation of Statement No. 54 of the Governmental Accounting Standards Board: Fund Balance Reporting and Governmental Fund Type Definitions, the General Fund includes the Jail Fund that was reported separately in the prior year as a major fund. The net effect was an increase to the beginning balance of the General Fund of \$34,691 on the *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis*.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 10. Change In Accounting Principles and Prior Period Adjustments (Continued)

Beginning net assets for governmental activities has been restated for capital assets left off in prior years, assets not properly removed, miscalculation of depreciation expense in prior year, and restatement of fund balance. Capital assets are restated by \$155,680, a (\$1) rounding error, and fund balances are restated by (\$221), for a net restatement of net assets of \$155,457.

	June 30, 2010		Restated	
	Ending Net Assets/		June 30, 2010	
	Fund Balance	Restatement	Ending Balance	
Governmental Activities	\$ 3,831,341	\$ 155,458	\$	3,986,799
General Fund	620,410	(221)		620,189

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SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,916,000	\$ 2,016,800	\$ 2,269,249	\$ 252,449
In Lieu Tax Payments	10,700	10,700	30,091	19,391
Excess Fees	21,787	21,787	11,554	(10,233)
Licenses and Permits	242,000	242,000	274,444	32,444
Intergovernmental Revenue	638,690	1,269,245	1,110,545	(158,700)
Charges for Services	555,000	563,480	515,097	(48,383)
Miscellaneous	80,700	194,500	195,030	530
Interest	6,000	6,000	7,172	1,172
Total Revenues	<u>3,470,877</u>	<u>4,324,512</u>	<u>4,413,182</u>	<u>88,670</u>
EXPENDITURES				
General Government	1,247,026	1,596,376	1,329,059	267,317
Protection to Persons and Property	921,671	1,059,471	955,875	103,596
General Health and Sanitation	161,000	168,500	132,960	35,540
Social Services	36,500	55,000	48,695	6,305
Recreation and Culture	124,100	134,100	107,248	26,852
Debt Service	230,900	583,200	580,898	2,302
Capital Projects	100,000	295,400	258,732	36,668
Administration	658,380	602,998	517,150	85,848
Total Expenditures	<u>3,479,577</u>	<u>4,495,045</u>	<u>3,930,617</u>	<u>564,428</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(8,700)</u>	<u>(170,533)</u>	<u>482,565</u>	<u>653,098</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(222,300)</u>	<u>(127,567)</u>	<u>(434,500)</u>	<u>(306,933)</u>
Total Other Financing Sources (Uses)	<u>(222,300)</u>	<u>(127,567)</u>	<u>(434,500)</u>	<u>(306,933)</u>
Net Changes in Fund Balance	(231,000)	(298,100)	48,065	346,165
Fund Balance - Beginning (Restated)	<u>231,000</u>	<u>620,400</u>	<u>620,189</u>	<u>(211)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 322,300</u>	<u>\$ 668,254</u>	<u>\$ 345,954</u>

SPENCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts,	Final Budget
			(Budgetary	Positive
			Basis)	(Negative)
REVENUES				
Intergovernmental Revenue	\$ 798,009	\$ 1,123,189	\$ 1,135,926	\$ 12,737
Miscellaneous	1,500	113,300	36,349	(76,951)
Interest	1,000	1,550	1,779	229
Total Revenues	800,509	1,238,039	1,174,054	(63,985)
EXPENDITURES				
Roads	614,209	1,227,006	940,252	286,754
Debt Service	60,000	155,000	116,685	38,315
Administration	176,300	180,600	162,906	17,694
Total Expenditures	850,509	1,562,606	1,219,843	342,763
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(324,567)	(45,789)	278,778
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		127,567	229,500	101,933
Total Other Financing Sources (Uses)		127,567	229,500	101,933
Net Changes in Fund Balance	(50,000)	(197,000)	183,711	380,711
Fund Balance - Beginning	50,000	97,000	188,638	91,638
Fund Balance - Ending	\$ 0	\$ (100,000)	\$ 372,349	\$ 472,349

SPENCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the General Fund for total revenues by \$137,755, total expenditures by \$332,337, total other financing sources (uses) by (\$205,000), beginning fund balance by \$34,691, and ending fund balance by \$45,109; due the inclusion of the Jail Fund with the General Fund in accordance with Statement No. 54 of the Governmental Accounting Standards Board.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the General Fund in intergovernmental revenue and debt service by \$59,700 due to payments by the Administrative Office of the Courts directly to the trustee for debt service.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill Karrer, Spencer County Judge/Executive
Members of the Spencer County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Spencer County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 9, 2012. Spencer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Spencer County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Spencer County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spencer County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Spencer County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Spencer County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

January 9, 2012

